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The Impact of Risk Preference on Auction Mechanism: An Experimental Approach

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Abstract

Auction is an important exchange mechanism from both the practical as well as theoretical perspective. The advent of the Internet has opened up new research arena for the theory of auctions. In this paper, we investigate the bidding behavior of subjects under three mechanisms, namely, the first-price, second-price, and third-price sealed-bid auctions, taking into consideration the risk profile of the subjects. In particular, we address the question of whether third-price auctions generate the highest expected revenue for the seller when bidders are risk seeking (Monderer and Tennenholtz (2000)).